

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND THE COUNCIL ON MOPANI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mopani District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) , section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified opinion

Revenue

7. There was no system of control over revenue from water services on which I could rely on for the purpose of my audit, and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all revenues from water services was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of water revenue of R142 322 389 (2010: R126 108 178).

Receivables

8. Included in consumer receivable balance of R305 405 130 (2010: R224 165 332) as disclosed in note 3 to the financial statements is an amount of R53 397 044 receivable from a municipality. The municipality could not provide me with sufficient appropriate audit evidence to support the amount of R53 397 044 disclosed. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not satisfy myself as to the existence, completeness, valuation and rights pertaining to the accounts receivable balance of R53 397 044.

Trade and other payables

9. Included in trade and other payables balance of R328 583 096 as disclosed in note 9 to the financial statements is an amount of R41 845 762 payable to a municipality. The amount payable to the municipality as disclosed in the financial statements, does not agree to the amount of R35 766 162 per the underlying accounting records. The municipality could not provide me with sufficient appropriate audit evidence to support the difference of R6 079 601. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not satisfy myself as to the existence, completeness, valuation and obligations pertaining to the accounts payable balance of R41 845 762.

Irregular expenditure

10. No system was in place for the identification and recognition of irregular expenditure and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the

completeness of irregular expenditure of R118 958 023 as disclosed in note 37.2 to the financial statements.

Distribution losses

11. Section 125 (2) (d) (i) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose the particulars of any material losses. The municipality did not disclose the water distribution losses as required by the MFMA.

Opinion

12. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mopani District Municipality for the year ended 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

13. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Mopani District municipality at, and for the year ended, 30 June 2010. In addition, as disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of a change in accounting policy.

Unauthorised, fruitless and wasteful expenditure

14. As disclosed in note 37.1 to the financial statements, the municipality incurred unauthorised expenditure of R203 247 603 as a result of overspending on its approved budget.
15. As disclosed in note 37.3 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R358 267 as a result of overpayment to two service providers.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

16. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages X to X and material non-compliance with laws and regulations applicable to the municipality.

Findings on the report of predetermined objectives

Usefulness of information

18. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.

The following audit findings relate to the above criteria:

19. Reported performance against predetermined objectives is not consistent with the approved Integrated Development Plan (IDP) with regard to the percentage of projects started on time and percentage of projects completed on time).

Reliability of information

20. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.

The following audit findings relate to the above criteria:

21. The accuracy and validity of reported actual performance could not be confirmed due to the fact that the actual amounts (that is the numerators and the denominators) to support the reported actual performance (a percentage) relating to 29% of the targets (technical services) were not reported in the annual performance report.

22. The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided. Completion certificates and progress reports for 32% of all the reported water and sanitation projects could not be obtained for audit purposes.

Compliance with laws and regulations

Budgets

23. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the Municipal Finance Management Act (MFMA).

Annual financial statements, performance and annual report

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

25. The preference point system was not applied in some instances of procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
26. Awards were made to providers who are persons in service of the municipality and in contravention of SCM regulations 44. Furthermore the providers failed to declare that he/she was in the service of the municipality as required by SCM regulation 13(c).
27. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).
28. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer as required by SCM regulation 29(5)(b).
29. Contracts were extended or modified to the extent that competitive bidding processes were being circumvented contrary to the requirement of a fair supply chain management system in sec 112 of the MFMA

Expenditure management

30. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
31. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

32. The council did not adopt or approve a tariff policy on the levying of fees for municipal services provided by the local municipalities by way of service delivery agreements contrary to section 74(1) of the Municipal Systems Act.

INTERNAL CONTROL

33. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report

Leadership

- The management did not exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls
- The management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

Financial and performance management

- The CFO did implement controls over daily and monthly processing and reconciling of water related transactions
- The CFO did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- The CFO did not review and monitor compliance with applicable laws and regulations
- Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- There were no appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention are conducted and that a risk strategy to address the risks is adequately monitored.

Auditor-General

Polokwane

30 November 2011



**AUDITOR-GENERAL
SOUTH AFRICA**

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